Umzimkhulu Local Municipality
Annual Financial Statements
For the period ended 30 June 2020

# Umzimkhulu Local Municipality
(Registration number KZN435)
Annual Financial Statements for the year ended 30 June 2020

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality in terms of section 1 of the local Government: Municipality Structures Act(Act 117 of 1998 read with section 155(1) of the Constitution of the republic of South Africa (Act 108 of 1996) |
| **Nature of business and principal activities** | The provision of public services to communities in a suitable manner, to promote social and economic development and to promote a safe and healthy environment. |
| **Legislation governing the municipality's operations** | Constitution fo the Republic of South Africa (Act 108 of 1998) Local Government: Municipality Finance Management Act (Act no.56 of 2003). Local government: Municipal Systems Act (Act 32 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Municipal Property Rates Act (Act no 6 of 2004) Division of Revenue Act (Act 1 of 2007) |
| **Mayoral Committee** | |
| Mayor | Cllr M B Mpabanga |
| Deputy Mayor | Cllr S Nkala |
| Speaker | Cllr J Msiya |
| Chief Whip | Cllr X Tshazi |
| Members of the Executive Committee | Cllr B Kleinbooi |
| Members of the Executive Committee | Cllr T Machi |
| Members of the Executive Committee | Cllr B Lukakayi |
| Members of the Executive Committee | Cllr B Z Magaqa |
| Members of the Executive Committee | Cllr K Mafuleka |
| Members of the Executive Committee | Cllr N Jaca |
| **Bankers** | First National Bank |
| **Auditors** | Auditor-General of South Africa |
| **Registered office and business address** | 169 Main Street<br>Umzimkhulu<br>3297 |
| **Postal address** | P O Box 53<br>Umzimkhulu<br>3297 |
| Telephone number | 039 259 5000 |
| Fax number | 039 259 0427 |
| Email address | info@umzimkhululm.gov.za |

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:



| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |

## Approval of the Annual Financial Statements

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial statements and related financial information included in this report. It is my responsibility, as the Accounting Officer to ensure that these financial statements fairly present the state of the affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) as well as relevant interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzimkhulu Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The accounting officer confirms that salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution

The annual annual financial statements set out on pages 4 to 79, which have been prepared on the going concern basis, were approved by the accounting officer on 30 October 2020

**Mr Z S S Khosana**
**Accounting Officer**

## Statement of Financial Position as at 30 June 2020

| Figures in Rands | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 2 | 246,184,257 | 181,488,706 |
| Receivables from exchange transactions (Statutory receivables) | 3 | 1,536,903 | 1,890,964 |
| Receivables from non-exchange transactions (Statutory receivables) | 4 | 2,852,835 | 3,126,776 |
| VAT receivable (Statutory receivables) | 5 | 3,175,965 | 4,837,222 |
| | | **253,749,960** | **191,343,668** |
| **Non-Current Assets** | | | |
| Investment property | 6 | 31,108,417 | 31,139,309 |
| Property, plant and equipment | 7 | 443,244,867 | 430,250,833 |
| Intangible assets | 8 | 694,914 | 844,142 |
| Heritage assets | 9 | 432,000 | 255,000 |
| | | **475,480,198** | **462,489,284** |
| **Total Assets** | | **729,230,158** | **653,832,952** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 10 | 18,939,058 | 20,435,523 |
| Employee benefit obligation | 13 | 127,239 | 196,077 |
| Unspent conditional grants and receipts | 11 | 39,044,480 | 18,229,751 |
| Unspent agents funds | 12 | 12,016,561 | - |
| | | - | - |
| | | **70,127,338** | **38,861,351** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 13 | 3,363,352 | 2,136,907 |
| Provisions | 14 | 4,630,000 | 4,202,863 |
| | | **7,993,352** | **6,339,770** |
| **Total Liabilities** | | **78,120,690** | **45,201,121** |
| **Net Assets** | | **651,109,468** | **608,631,831** |
| Reserves | | | |
| Housing Development fund | 15 | 24,840,303 | 23,586,445 |
| Accumulated surplus | 16 | 626,269,165 | 585,045,386 |
| **Total Net Assets** | | **651,109,468** | **608,631,831** |

## Statement of Financial Performance

| Figures in Rands | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 2,692,111 | 2,807,904 |
| Rental of facilities and equipment | 18 | 1,404,031 | 1,268,036 |
| Interest received (trading) | | 457,152 | 395,572 |
| Agency services | | 421,773 | 592,485 |
| Licences and permits | | 88,571 | 67,350 |
| Impairment loss reversal | | 177,000 | - |
| Other income | 20 | 861,387 | 803,244 |
| Interest received - investment | 17 | 13,027,986 | 14,016,480 |
| **Total revenue from exchange transactions** | | **19,130,011** | **19,951,071** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 22 | 9,820,445 | 7,287,581 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 23 | 239,201,271 | 227,625,422 |
| Public contributions and donations | | 100 | 26,087 |
| Fines, Penalties and Forfeits | | 752,455 | 840,765 |
| Learners and licences | | 409,490 | 656,584 |
| **Total revenue from non-exchange transactions** | | **250,183,761** | **236,436,439** |
| **Total revenue** | 24 | **269,313,772** | **256,387,510** |
| **Expenditure** | | | |
| Employee related costs | 25 | (100,934,925) | (90,975,241) |
| Remuneration of councillors | 26 | (15,923,461) | (13,997,427) |
| Impairment loss | | (4,251,416) | (463,034) |
| Depreciation and amortisation | 28 | (35,668,067) | (47,653,880) |
| Finance costs | 29 | (914,323) | (1,699,458) |
| Lease rentals on operating lease | | (451,470) | (392,057) |
| Debt Impairment | 27 | (2,124,272) | (2,165,840) |
| Bad debts written off | | (905,472) | (1,072,807) |
| Contracted services | 31 | (27,646,847) | (37,408,507) |
| Transfers and Subsidies | | (254,280) | (238,500) |
| General Expenses | 30 | (38,261,395) | (46,279,397) |
| **Total expenditure** | | **(227,335,928)** | **(242,346,148)** |
| **Surplus for the year from continuing operations** | | **41,977,844** | **14,041,362** |
| Gains/ losses on disposal of assets | | (754,064) | 814,053 |
| **Surplus for the year** | | **41,223,780** | **14,855,415** |

## Statement of Changes in Net Assets

| Figures in Rands | Housing Development Fund | Accumulated surplus | Total net assets |
|---|---|---|---|
| **Balance at 01 July 2018** | **21,119,440** | **570,189,971** | **591,309,411** |
| Changes in net assets | | | |
| Surplus for the year | - | 14,855,415 | 14,855,415 |
| Interest on Housing development fund | 2,467,005 | - | 2,467,005 |
| Total changes | 2,467,005 | 14,855,415 | 17,322,420 |
| Opening balance as previously reported | 23,586,445 | 589,810,589 | 613,397,034 |
| Adjustments | | | |
| Correction of prior period errors | - | (4,765,204) | (4,765,204) |
| **Restated* Balance at 01 July 2019 as restated*** | **23,586,445** | **585,045,385** | **608,631,830** |
| Changes in net assets | | | |
| Surplus for the year | - | 41,223,780 | 41,223,780 |
| Interest on Housing development fund | 1,253,858 | - | 1,253,858 |
| Total changes | 1,253,858 | 41,223,780 | 42,477,638 |
| **Balance at 30 June 2020** | **24,840,303** | **626,269,165** | **651,109,468** |
| Note(s) | 15 | | |

# Cash Flow Statement

| Figures in Rands | Note(s) | 2020 | 2019 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Receipts from ratepayers and other services | | 16,907,515 | 13,888,139 |
| Government Grants and subsidies | | 260,016,000 | 226,604,914 |
| Interest income | | 12,567,991 | 7,829,298 |
| Funds receipts | | 13,000,000 | 15,000,000 |
| | | 302,491,506 | 263,322,351 |
| **Payments** | | | |
| Employee costs | | (115,879,736) | (104,550,080) |
| Suppliers and other payments | | (70,839,003) | (104,936,556) |
| Payments from funds | | (983,439) | (15,000,000) |
| | | (187,702,178) | (224,486,636) |
| **Net cash flows from operating activities** | 33 | **114,789,328** | **38,835,715** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (49,957,476) | (64,336,506) |
| Purchase of other intangible assets | 8 | (277,356) | (394,840) |
| Sale of asset | | 141,055 | 1,000,000 |
| **Net cash flows from investing activities** | | **(50,093,777)** | **(63,731,346)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **64,695,551** | **(24,895,631)** |
| Cash and cash equivalents at the beginning of the year | | 181,488,706 | 206,384,337 |
| **Cash and cash equivalents at the end of the year** | 2 | **246,184,257** | **181,488,706** |

## Appropriation Statement

Figures in Rands

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 9,977,601 | (344,394) | 9,633,207 | - | | 9,633,207 | 9,820,445 | | 187,238 | 102 % | 98 % |
| Service charges | 3,208,854 | (489,489) | 2,719,365 | - | | 2,719,365 | 2,692,111 | | (27,254) | 99 % | 84 % |
| Interest received-investment | 8,056,400 | 5,060,765 | 13,117,165 | - | | 13,117,165 | 13,027,986 | | (89,179) | 99 % | 162 % |
| Government grants& subsidies | 258,799,000 | 11,503,422 | 270,302,422 | - | | 270,302,422 | 239,201,271 | | (31,101,151) | 88 % | 92 % |
| Other income | 1,403,796 | 262,710 | 1,666,506 | - | | 1,666,506 | 861,387 | | (805,119) | 52 % | 61 % |
| Rental of facilities and equipment | 559,281 | - | 559,281 | - | | 559,281 | 1,404,031 | | 844,750 | 251 % | 251 % |
| Interest received- trading | 364,016 | 111,785 | 475,801 | - | | 475,801 | 457,152 | | (18,649) | 96 % | 126 % |
| Agency services | 600,000 | - | 600,000 | - | | 600,000 | 421,773 | | (178,227) | 70 % | 70 % |
| Licences and permits | 50,000 | - | 50,000 | - | | 50,000 | 88,571 | | 38,571 | 177 % | 177 % |
| Impairment loss reversal | - | - | - | - | | - | 177,000 | | 177,000 | DIV/0 % | DIV/0 % |
| Fines, penalties and forfeits | 408,000 | 313,450 | 721,450 | - | | 721,450 | 752,455 | | 31,005 | 104 % | 184 % |
| Learners and licences | 600,000 | - | 600,000 | - | | 600,000 | 409,490 | | (190,510) | 68 % | 68 % |
| Gains on disposal of PPE | - | 3,000 | 3,000 | - | | 3,000 | 2,000 | | (1,000) | 67 % | DIV/0 % |
| **Total revenue (excluding capital transfers and contributions)** | **284,026,948** | **16,421,249** | **300,448,197** | **-** | | **300,448,197** | **269,315,672** | | **(31,132,525)** | **90 %** | **95 %** |
| Employee related costs | (108,979,347) | 5,265,420 | (103,713,927) | - | - | (103,713,927) | (100,934,925) | - | 2,779,002 | 97 % | 93 % |
| Remuneration of councillors | (16,570,167) | (393,755) | (16,963,922) | - | - | (16,963,922) | (15,923,461) | - | 1,040,461 | 94 % | 96 % |
| Impairment loss | - | - | - | (4,307,000) | | (4,307,000) | (4,251,416) | - | 55,584 | 99 % | DIV/0 % |
| Depreciation and amortisation | (54,068,329) | 333,223 | (53,735,106) | 5,184,000 | | (48,551,106) | (35,668,067) | - | 12,883,039 | 73 % | 66 % |
| Debt impairment | (3,800,000) | (838,000) | (4,638,000) | (497,000) | - | (5,135,000) | (3,029,744) | - | 2,105,256 | 59 % | 80 % |

## Statement of Comparison of Budget and Actual Amounts

| Figures in Rands | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Finance cost | - | - | - | (950,000) | - | (950,000) | (914,323) | - | 35,677 | 96 % | DIV/0 % |
| Lease rentals | (900,000) | 440,000 | (460,000) | - | - | (460,000) | (451,470) | - | 8,530 | 98 % | 50 % |
| Other material | (2,820,000) | 269,000 | (2,551,000) | - | - | (2,551,000) | (1,493,737) | - | 1,057,263 | 59 % | 53 % |
| Contracted services | (55,102,100) | 13,153,716 | (41,948,384) | 858,000 | - | (41,090,384) | (27,646,847) | - | 13,443,537 | 67 % | 50 % |
| Transfers and subsidies | (12,500,000) | 12,197,000 | (303,000) | - | - | (303,000) | (254,280) | - | 48,720 | 84 % | 2 % |
| General expenses | (44,557,000) | (1,906,460) | (46,463,460) | (288,000) | - | (46,751,460) | (36,767,658) | - | 9,983,802 | 79 % | 83 % |
| **Total expenditure** | **(299,296,943)** | **28,520,144** | **(270,776,799)** | **-** | **-** | **(270,776,799)** | **(227,335,928)** | **-** | **43,440,871** | **84 %** | **76 %** |
| **Surplus/(Deficit)** | **(15,269,995)** | **44,941,393** | **29,671,398** | **-** | | **29,671,398** | **41,977,844** | | **12,308,346** | **141 %** | **(275)%** |
| Gains/ losses on disposal of assets | - | - | - | - | | - | (754,054) | | (754,054) | DIV/0 % | DIV/0 % |
| **Surplus/(Deficit) for the year** | **(15,269,995)** | **44,941,393** | **29,671,398** | **-** | | **29,671,398** | **41,223,780** | | **11,552,382** | **139 %** | **(270)%** |

**Capital expenditure and funds sources**

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total capital expenditure | 108,166,000 | 1,256,903 | 109,422,903 | - | | 109,422,903 | 53,630,517 | | (55,792,386) | 49 % | 50 % |
| **Sources of capital funds** | | | | | | | | | | | |
| National government | 55,373,000 | 9,437,930 | 64,810,930 | - | | 64,810,930 | 40,718,560 | | (24,092,370) | 63 % | 74 % |
| Provincial | 8,243,000 | 152,079 | 8,395,079 | - | | 8,395,079 | 2,694,395 | | (5,700,684) | 32 % | 33 % |
| Internally generated funds | 44,550,000 | (8,333,106) | 36,216,894 | - | | 36,216,894 | 10,217,562 | | (25,999,332) | 28 % | 23 % |
| **Total sources of capital funds** | **108,166,000** | **1,256,903** | **109,422,903** | **-** | | **109,422,903** | **53,630,517** | | **(55,792,386)** | **49 %** | **50 %** |

## Statement of Comparison of Budget and Actual Amounts

| Figures in Rands | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows** | | | | | | | | | | | |
| Net cash from (used) operating | 38,431,269 | 48,042,079 | 86,473,348 | - | | 86,473,348 | 114,789,328 | | 28,315,980 | 133 % | 299 % |
| Net cash from (used) investing | (122,016,000) | 12,596,097 | (109,419,903) | - | | (109,419,903) | (50,093,777) | | 59,326,126 | 46 % | 41 % |
| **Net increase/(decrease) in cash and cash equivalents** | **(83,584,731)** | **60,638,176** | **(22,946,555)** | **-** | | **(22,946,555)** | **64,695,551** | | **87,642,106** | **(282)%** | **(77)%** |
| Cash and cash equivalents at the beginning of the year | 174,052,115 | 8,782,331 | 182,834,446 | - | | 182,834,446 | 181,488,706 | | (1,345,740) | 99 % | 104 % |
| **Cash and cash equivalents at year end** | **90,467,384** | **69,420,507** | **159,887,891** | **-** | | **159,887,891** | **246,184,257** | | **(86,296,366)** | **154 %** | **272 %** |

# Summary of Significant Accounting Policies

## 1. Presentation of Annual Financial Statements

### 1.1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

### 1.1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### 1.1.3 Changes in accounting policies, esimates and errors

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in stimates are disclosed in the notes to the annual financial statements where applicable.

Change in an accounting estimate is recognised prospectively in terms of GRAP 3 by including it in surplus or deficit in:

(a) The period of the change, if the change affects that period only; or

(b) The period of the change and future periods, if the change affects both

Errors are corrected retrospectively in the period in which the error has occured in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only in the following instances:
(a) Is required by a Standard of GRAP; or
(b) Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

### 1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

# Summary of Significant Accounting Policies

### 1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.5 Critical judgements, estimation and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include:

#### 1.5.1 Revenue recognition

Accounting policy 1.18 on Revenue from exchange Transactions and accounting policy 1.19 of Revenue from non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### 1.5.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on Financial Assets Classification and on Financial Liabilities Classification describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

#### 1.5.3 Impairment of financial assets

Accounting Policy 1.24 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial instruments and used its judgement to select a variety of methods and made assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment value of financial assets recorded during the year is appropriate.

#### 1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the underlying assets. The estimated useful lives of PPE, investment property and intangible assets are assessed annually and this is dependent on the condition of the assets. The residual values are estimated to be zero as the municipality will be utilising these assets of their entire economic life.

## Summary of Significant Accounting Policies

. **Critical judgements, estimation and assumptions (continued)**

### 1.5.5 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar. General purpose financial reporting by municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget. The approved budget is prepared on accrual basis and presented by economic classification linked to performance outcome objectives.
The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.
The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to, and forms part of these annual financial statements.

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained between the Statement of comparison of Budget and Actuals and the notes to the annual financial statements.

### 1.5.6 Impairment of property, plant and equipment and intangible assets

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets- Amortisation and impairment. Subsequent measurement describes the conditions under which non- financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [Heavy rains, storms, etc].

### 1.5.7 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

### 1.5.8 Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

# Summary of Significant Accounting Policies

### 1.6 New standards and interpretations

**1.6.1 Standards and interpretations issued, but not yet effective**
The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2019 or later periods:

**GRAP104: Financial instruments**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of financial instruments.

**1.6.2 Standards and interpretations approved not yet effective**

**GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure,

Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

Requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

Defines the principle of control, and establishes control as the basis for consolidation;

Sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;

Sets out the accounting requirements for the preparation of consolidated financial statements; and

Defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

## Summary of Significant Accounting Policies

- **New standards and interpretations (continued)**

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 36: Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 37: Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 38: Disclosure of Interests in Other Entities**

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

The nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and

The effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities,

# Summary of Significant Accounting Policies

**. New standards and interpretations (continued)**

Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are

59 not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

## 1.7 Investment property

### 1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

### 1.7.2 Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| | |
|---|---|
| Investment property | 30-50 years |

### 1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

## 1.8 Property, plant and equipment

### 1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

## Summary of Significant Accounting Policies

. **Property, plant and equipment (continued)**

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part thereof. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

### 1.8.2 Subsequent measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

### 1.8.3 Depreciation and impairment

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives of assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

| **Item** | **Average useful life** |
| --- | --- |
| Land | indefinate |
| Buildings | 30-50 years |
| Infrastructure | |
| • Roads | 10 years |
| • Stormwater drains | 20-50 years |
| • Bridges | 30-50 years |
| Community | |
| • Community halls | 30-50 years |
| • Sport stadiums | 20-30 years |
| • Community centres | 30-50 years |

## Summary of Significant Accounting Policies

**. Property, plant and equipment (continued)**

Other fixed assets

| | |
|---|---|
| • Motor vehicles | 5-10 years |
| • Office equipment | 3-10 years |
| • Furniture and fittings | 7-10 years |
| • Graders | 10-15 years |
| • Landfill site | 15 years |
| • Tractors | 10-15 years |
| • Tippers | 10-15 years |
| • Other plant and machinery | 5-15 years |
| • Air conditioners | 5-7 years |
| • Computer hardware | 5 years |

The useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

### 1.8.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.8.5 Work in progress

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

### 1.8.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

### 1.8.7 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

### 1.9 Intangible assets

### 1.9.1 Initial recognition

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

# Summary of Significant Accounting Policies

. **Intangible assets (continued)**

### 1.9.2 Subsequent measurement

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

### 1.9.3 Amortisation and impairment

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
| --- | --- |
| Computer software, other | 3-5 years |

### 1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

## Summary of Significant Accounting Policies

- **Site restoration and dismantling cost (continued)**

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### 1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### 1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### 1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

#### 1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### 1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

## Summary of Significant Accounting Policies

. **Heritage assets (continued)**

**1.11.6 Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

**1.12 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

## Summary of Significant Accounting Policies

. **Financial instruments (continued)**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

## Summary of Significant Accounting Policies

. **Financial instruments (continued)**

### 1.12.1 Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Cash and cash equivalent | Financial asset measured at amortised cost |
| Receivables form exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Other financial liabilities | Financial liability measured at amortised cost |

### 1.12.2 Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

### 1.12.3 Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

## Summary of Significant Accounting Policies

. **Financial instruments (continued)**

**1.12.4 Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**1.12.5 Impairment and uncollectibility of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

**Financial assets measured at amortised cost:**

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

## Summary of Significant Accounting Policies

. **Financial instruments (continued)**

### 1.12.6 Derecognition

#### 1.12.6.1 Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### 1.12.6.2 Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

## Summary of Significant Accounting Policies

**. Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.12.7 Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

### 1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

Where it is not possible to recover the revenue recognised from fruitless and wasteful, the receivable is written-off following proper write off processes in terms of the MFMA.

### 1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Summary of Significant Accounting Policies

### 1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

### 1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

## Summary of Significant Accounting Policies

. **Leases (continued)**

### 1.17.1 Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

### 1.17.2 Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. Such transactions are accounted for in accordance with the standard on principals and agents

### 1.18.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

### 1.18.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Summary of Significant Accounting Policies

- **Revenue from exchange transactions (continued)**

### 1.18.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

### 1.18.4 Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

## 1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

# Summary of Significant Accounting Policies

. **Revenue from non-exchange transactions (continued)**

### 1.19.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### 1.19.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.19.3 Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

### 1.19.4 Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

### 1.19.5 Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

# Summary of Significant Accounting Policies

. **Revenue from non-exchange transactions (continued)**

### 1.19.6 Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

### 1.19.7 Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

### 1.19.8 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 1.19.9 Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Services in-kind are not recognised.

### 1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment costs are recognised as an expense in the period in which they ar incurred.

### 1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.23 Employee benefits

### 1.23.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compansated absences is recognised s an expense as the employee render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

# Summary of Significant Accounting Policies

### . Employee benefits (continued)

The expected costs of surplus sharing and bonus payments is recognised as expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### 1.23.2 Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical and pension funds on their behalf and thus there are no post- employment benefits.

#### 1.23.3 Long service awards

Provision for long services awards represents the present value of the estimated future cash outflow to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis.Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance. The Municipality recognises the expected cost of bonus, incentive and performance related payments when and only when: (a) it has a present legal or constructive obligation to make such payments as a result of past events, (b) a reliable estimate of the obligation can be made.

#### Defined contribution plans

A defined contribution plan is a post-employment pension plan under which the municipality pays fixed contributions into a separate entity (a fund). The municipality has no further payment obligations once the contributions have been paid. Accordingly, the municipality recognises the contributions to the scheme as an expense when the employees have rendered a service. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### Termination benefits

Termination benefits are recognised when they accrue to employees.

## Summary of Significant Accounting Policies

. **Employee benefits (continued)**

### 1.23.4 Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.24 Impairment of cash generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

# Summary of Significant Accounting Policies

### . Impairment of cash generating assets (continued)

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.25 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

# Summary of Significant Accounting Policies

### 1.26 Statutory receivables identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

**Recognition**

The municipality recognises statutory receivables as follows:
• if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
• if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
• if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.
•

**Initial measurement**

The municipality initially measures statutory receivables at their transaction amount. Subsequent measurement
The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
• interest or other charges that may have accrued on the receivable (where applicable);
• impairment losses; and
• amounts derecognised. Accrued interest
Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.
Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

**Other charges**

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (taxes and transfers).

**Impairment losses**

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.
In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

## Summary of Significant Accounting Policies

- **Statutory receivables identification (continued)**

• significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
• it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation.
• a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
• adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.
If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, t he municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.
An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.
Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

**Derecognition**

The municipality derecognises a statutory receivable, or a part thereof, when:
• the rights to the cash flows from the receivable are settled, expire or are waived;
• the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
• the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
- derecognises the receivable; and
- recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

the municipality has opted to take advantage of the transitional provisions of GRAP 108 and will fully comply with the standard by 30 June 2022.

Recievables that would fall under statutory receivables are as follows:
- Rates
- Refuse
- VAT

# Summary of Significant Accounting Policies

### 1.27 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.28 Use of estimates

The preparation of annual annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.30 Segmental information

The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Where applicable segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

### 1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# Summary of Significant Accounting Policies

### 1.32 Commitments

A commitment is a contract that is non-cancelable or only cancelable at significant cost, to the extent that the amount has not been recorded elsewhere in the financial statements.
Commitments are further split into capital and operating commitments.
Capital commitments are amounts committed to acquire goods and services which are of capital in nature, i.e.; upgrading and/or construction of assets. Operating commitments are amounts committed to acquire day-to-day goods and services required to sustain municipality's business operations.
These commitments are disclosed in the notes to the annual financial statements.
Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.33 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.34 Payables from exchange transactions

The Municipality recognises payables from exhange transactions where liabilities result in counter performance by respective parties as a result of exchange transactions.

Payables from exchange transactions are initially measured at fair value. Where the ouflow is expected to be cash or another financial asset, the payable is classified as financial liability.

The Municipality recognises in payables an amount for accruals where an estimate is made of the amounts due for goods or services that have been received or supplied, but an invoice or formal request for payment has not been received at the reporting date.

### 1.35 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term liquid investments that are convertible to a known amount of cash and are subject to an insignificant rist of changes in value.

Cash and cash equivalents are classified as financial instruments (refer to note 2).

# Summary of Significant Accounting Policies

. **Events after reporting date (continued)**

### 1.36 Accounting by Principals and Agents

An entity is an agent when in relation to transactions with third parties all three of the following criteria are present:
That the entity concerned does not have the power to determine the significant terms and conditions of the transaction;
That it does not have the ability to use all or substantially all of the resources resulting from the transactions for its own benefit; and that it is not exposed to variability in the results of the transaction.

An exception will apply where an entity has been granted specific powers in terms of legislation to direct terms and conditions of particular transactions, in such a situation it shall not consider the 'not having the power to determine significant terms and conditions of the transaction' criteria to conclude that it is an agent. In such situations, the entity shall apply its own judgement in determining whether such powers exist and whether they are relevant in assessing an entity as an agent.

The Municipality has an agent-principal relationship with two different parties namely the **Human Settlement Department** and **Eskom**, the latter administered in conjunction with and partly through the National Department of Energy.

**Housing Development Fund (Municipal Housing Operating Account)**

In respect of Human Settlement Function, the Municipality has been tasked with the responsibility of delivering housing projects for and on behalf the Human Settlement Department done in terms of the Housing Act, Act No 107 of 1997 whereby a Human Settlement Fund was historically advanced to the Municipality for the sole purpose of developing and selling housing schemes. This fund has two components, the capital fund and the operational fund. The capital fund represents the capital sum that came into being on 01 April 1998 (as a result of the extinguishment of the previous National and Provincial Government Loans made available to the Municipality for the purpose of financing housing selling schemes in terms of the then incoming Housing Act) while the operational fund represents a combination of interested earned on the capital fund that has been transferred to the operational fund under the express authority of the Human Settlement Department and interest since earned on the operational fund itself to-date. The two funds are managed through distinct bank accounts. The development and selling of housing schemes, is done through the operational fund; whereby each housing scheme's business plan is specifically approved and signed off by the Human Settlement Department from start to completion. In terms of the standing directive of the Housing Act, Section 14 (4) (d) (iv) the Municipality furnishes on a monthly basis monthly reports regarding the sale of immovable property by the Municipality in terms of this paragraph including the basis for determining the selling prices.

**Intitial recognition**
The Municipal Housing Operating Account is the interest of the Capital and is recognised as a reserve in municipal books. The municipality recognises a liability when it receives the funds from the principal, and when paying the service providers the liability is reduced. This standard has been early adopted by the municipality.

**Subsequent measurement**
The unspent fund on Human Settlement Development Fund is recorded as an unspent in the liabilities.

**ESKOM as the Princial**

With respect to the Eskom principal / agency relationship the Municipality receives a conditional electrification grant from the National Department of Energy, the purpose of which is to address the electrification backlog of permanently occupied residential dwellings entailing the installation and rehabilitation of the electricity bulk infrastructure. The foregoing 'works' on infrastructure are done on behalf of and for the benefit of Eskom. In terms of the existing memorandum of understanding, Eskom approves the design and the construction / rehabilitation of each bulk infrastructure project embarked upon; with a final approval sign-off on project completion prior to the permanent transfer of the project on completion. There were no changes to the foregoing significant terms and conditions of the arrangement during the reporting period.

The foregoing arrangements have been accounted for in terms of the standard on accounting by principals and agents, wherein the Municipality is an agent and two parties referred to above are unrelated and independent principals. Practically, these arrangements have each been accounted for in terms of fund accounting; whereby the funds received are recognised as an effective liability in terms of fund accounting; and upon utilisation of the fund for the intended purposes in the manner described above, the respective fund is reduced by the total approved and compliant expenditure. Accordingly, at any reporting date, each respective fund represents the unexpended portion of the respective designated funds received from the respective principals inclusive of interest received, where expressly stipulated. Each of the funds are duly backed by the matching investment bank accounts at the reporting date. The nature and the identity of conditional capital grant received from the National Department of Energy, has been overridden by the principles of the principal / agent relationship amongst the parties involved and thus accounted for in terms of fund accounting.

# Summary of Significant Accounting Policies

### . Events after reporting date (continued)

There were resources that were duly recognised in the Municipality's financial statements yet held on the principal's behalf. The only risks transferred from the respective principals to the Municipality are 'custody and potential workmanship error' risk on the development and selling of housing schemes as well respective construction and rehabilitation activities vis-à-vis the bulk electricity infrastructure during the construction and rehabilitation phase.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 2. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 1,634,246 | 1,481,306 |
| Cash on hand | 1,759 | 1,735 |
| Short-term deposits | 244,548,252 | 180,005,665 |
| | **246,184,257** | **181,488,706** |

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the ilxopo branch and the account number is 5255 573 0913.

**Primary bank account details**

| **Account number / description** | **Bank statement balances** | | **Cash book balances** | |
|---|---|---|---|---|
| | **30 June 2020** | **30 June 2019** | **30 June 2020** | **30 June 2019** |
| FNB-Cheque account 52555730913 | 1,573,583 | 2,724,367 | 1,634,246 | 1,481,306 |
| MIG grant- FNB- 62123938055 | 32,970,453 | 11,700,612 | 28,491,775 | 11,700,613 |
| Neighbourhood grant-FNB- 62174358525 | 3,100,862 | 2,973,833 | 3,100,862 | 2,973,883 |
| Electricity- FNB- 62174363508 | 9,897,500 | 2,567 | 9,897,500 | 2,567 |
| Ritvlei/Cly Surv Account-FNB-62123938104 | 1,024,192 | 982,627 | - | - |
| 32 Days acc- FNB- 62132172355 | 90,947,403 | 83,768,747 | 88,035,518 | 81,352,494 |
| Human settlement housing operating acc- 62396633838 | 24,288,111 | 12,315,462 | 24,840,303 | 13,298,089 |
| Small town dev- FNB- 62396640396 | 228,966 | 219,724 | 228,966 | 219,724 |
| Investec investment- 1100501690459 | - | 38,796,033 | - | 38,796,033 |
| STD Bank cash investment- 248875078001 | - | 21,373,907 | - | 21,373,907 |
| FNB cash investment- 71803116675 | - | 10,288,356 | - | 10,288,356 |
| Sport grant-FNB- 62814621901 | 16,617,657 | - | 16,617,657 | - |
| Nedbank- 37165022759/05 | 42,506,995 | - | 42,506,995 | - |
| Nedbank- 37165022759/2 | 30,828,678 | - | 30,828,678 | - |
| **Total** | **253,984,400** | **185,146,235** | **246,182,500** | **181,486,972** |

According to MSCOA chart version 6.1 item assets segment only allows for 10 bank accounts to be added on the system, however on the bank the accounts are separate, there is only 1 account (Rietvlei/ Cly surv account) that has been combined with 32 days account on the MUNSOFT system.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 3. Receivables from exchange transactions (Statutory receivables)

| | | |
|---|---|---|
| Provision for other receivables | - | 7,767 |
| Prepayments | 883,778 | 976,940 |
| Operating lease receivables | 43,486 | 46,999 |
| Consumer debtors - Refuse | 421,313 | 678,492 |
| Consumer debtors - Other Rentals | 188,326 | 180,766 |
| | **1,536,903** | **1,890,964** |

**A prepayment** is when the municipality pays an invoice or make a payment for more than one period in advance. The municipality has paid for the extended warranties and service plans when municipal vehicles were purchased.

**Operating lease**- payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset/liability. Interest on overdue accounts is charged at a rate of 15.5% as per section 75A (1) (b) of the Municipal Systems Act No. 32 of 2000.

**Refuse Removal-** In terms of section 75A (1) (a) and (b) of the Municipal Systems Act No. 32 of 2000 state that a municipality may levy and recover fees, charges of tariffs in rèspect of any function or service of the municipality and recover collection charges and interest on any outstanding amount. Therefore the municipality levies on a monthly basis and charge interest on overdue accounts is charged at a rate of 15.5% annually. The transactions are determined by applying the approved tariffs in difference categories of the consumers. The basis used to assess and test whether a statutory receivable is impaired, the municipality considers (Residential) debtors owing more than 90 days with no payment, the whole debt will be provided for and debtors with few payments only debt over 90 days will be provided for. Business properties we do not provide for businesses that have made payment during the financial year and also for business that are owing more than90 days, only amounts more than90 days are provided for. Government properties we do not provide for and Lease agreements we do not provide for. Receivables are grouped and assessed for collective impairment as per Mscoa segments. The discount rate varies as per consumer categories and ranges from 25% to 40%. The determination arises on the debt analysis of the consumers due number of days outstanding on the age analysis.

**Reconciliation of provision for impairment of Refuse**

| | | |
|---|---|---|
| Opening balance | (3,935,752) | (2,719,323) |
| Provision for impairment | 1,078,475 | (1,216,429) |
| | **(2,857,277)** | **(3,935,752)** |

**Net Refuse**

| | | |
|---|---|---|
| Gross balance | 5,435,541 | 4,614,245 |
| Less: allowance for impairment | (5,014,228) | (3,935,753) |
| **Net balances** | **421,313** | **678,492** |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 3. Receivables from exchange transactions (Statutory receivables) (continued)

| | | |
|---|---|---|
| **Refuse Residential** | | |
| Current (0-30 days) | 189,619 | 196,265 |
| 31-60 days | 177,936 | 163,837 |
| 61-90 days | 166,697 | 157,739 |
| 91-120 days | 164,401 | 152,360 |
| 121-365 days | 4,551,723 | 3,763,984 |
| | 5,250,377 | 4,434,183 |
| Less: Allowance for impairment | (5,014,228) | (3,934,308) |
| | **236,149** | **499,875** |

| | | |
|---|---|---|
| **Refuse commercial** | | |
| Current (0-30 days) | 75,653 | 88,915 |
| 31-60 days | 56,446 | 35,005 |
| 61-90 days | 10,194 | 18,511 |
| 91-120 days | 5,621 | 12,373 |
| 121-365 days | 31,804 | 21,417 |
| | 179,718 | 176,221 |
| Less: Allowance for impairment | - | (1,445) |
| | **179,718** | **174,777** |

| | | |
|---|---|---|
| **Refuse state owned** | | |
| Current (0-30 days) | 219 | - |
| 31-60 days | 219 | - |
| 61-90 days | 219 | - |
| 91-120 days | 219 | 3,757 |
| 121-365 days | 4,570 | 83 |
| | 5,446 | 3,840 |
| Less: Allowance for impairment | - | - |
| | **5,446** | **3,840** |

| | | |
|---|---|---|
| **Other rentals** | | |
| balance | 188,326 | 180,766 |

### 4. Receivables from non-exchange transactions (Statutory receivables)

| | | |
|---|---|---|
| Fines | 1,051,839 | 2,029,205 |
| Provision for Fines | (901,503) | (1,740,323) |
| Consumer debtors - Rates | 2,702,499 | 2,837,894 |
| | **2,852,835** | **3,126,776** |

**Fines** are issued in terms of section 334 of Criminal Procedure Act 51 of 1997. The road traffic fine is section 56 and parking fine is section 341. Tariffs are listed on the Department of Transport tariff listing approved by the Magistrate.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 4. Receivables from non-exchange transactions (Statutory receivables) (continued)

**Property rates** are levied in terms of section 7 to section 15 of the Municipal Property Rates Act of No.6 of 2004. Property rates are levied as per the tariffs approved by municipal Council using the gazetted General Valuation Roll and levied on a monthly basis for consumers except for government properties that are levied annually. Interest on overdue accounts are not charged in terms of Property Rates Policy. The amount levied is determined by applying the Market Value by approved tariffs in different categories and less Rebates offered by the municipality. The basis used to assess and test whether a statutory receivable is impaired, the municipality considers (Residential) debtors owing more than 90 days with no payment, the whole debt will be provided for and debtors with few payments only debt over 90 days will be provided for. Business properties we do not provide for businesses that have made payment during the financial year and also for business that are owing more than90 days, only amounts more than90 days are provided for. Government properties we do not provide for and Lease agreements we do not provide for. Receivables are grouped and assessed for collective impairment as per Mscoa segments. The discount rate varies as per consumer categories and ranges from 25% to 40%. The determination arises on the debt analysis of the consumers due number of days outstanding on the age analysis.

**Reconciliation of provision for impairment of Fines**

| | | |
|---|---|---|
| Opening balance | (1,740,323) | (1,425,216) |
| Provision for impairment | (496,350) | (405,153) |
| Amounts written off as uncollectible | 1,335,170 | 90,046 |
| | **(901,503)** | **(1,740,323)** |

**Reconciliationof provision for impairment on Rates**

| | | |
|---|---|---|
| Opening balance | (1,677,390) | (1,142,615) |
| Provision for impairment | (549,447) | (534,745) |
| | **(2,226,837)** | **(1,677,360)** |

**Rates**

| | | |
|---|---|---|
| Gross balance | 4,929,164 | 4,515,284 |
| Less: allowance for impairment | (2,226,837) | (1,677,390) |
| **Net balance** | **2,702,327** | **2,837,894** |

**Rates residential**

| | | |
|---|---|---|
| Current (0-30 days) | 118,141 | 128,125 |
| 31-60 days | 106,724 | 102,850 |
| 61-90 days | 98,956 | 93,696 |
| 91-120 days | 96,331 | 88,701 |
| 121-365 days | 2,005,761 | 1,402,067 |
| | 2,425,911 | 1,815,439 |
| Less: allowance for impairment | (2,220,502) | (1,602,768) |
| | **205,409** | **212,671** |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
| --- | --- | --- |

### 4. Receivables from non-exchange transactions (Statutory receivables) (continued)

| | 2020 | 2019 |
| --- | --- | --- |
| **Rates Commercial** | | |
| Current (0-30 days) | 244,391 | 176,847 |
| 31-60 days | 57,542 | 47,739 |
| 61-90 days | 42,899 | 22,729 |
| 91-120 days | 40,352 | 14,514 |
| 121-365 days | 346,753 | 219,008 |
| | 731,936 | 480,837 |
| Less: allowance for impairment | (6,334) | (74,622) |
| | **725,601** | **406,215** |

| | 2020 | 2019 |
| --- | --- | --- |
| **Rates state owned** | | |
| Current (0-30 days) | 5,351 | 8,523 |
| 121-365 days | 1,765,966 | 2,210,484 |
| | 1,771,316 | 2,219,007 |
| Less: allowance for impairment | - | - |
| | **1,771,316** | **2,219,007** |

### 5. VAT receivable (Statutory receivables)

| | 2020 | 2019 |
| --- | --- | --- |
| VAT | 3,175,965 | 4,837,222 |

Vat is imposed as per Value Added Tax Act 89 of 1991, section 7 (3) *(a)* Where any goods manufactured in the Republic, being of a class or kind subject to excise duty or environmental levy under Part 2 or 3 of Schedule 1 to the Customs and Excise Act, have been supplied at a price which does not include such excise duty or environmental levy and tax has become payable in respect of the supply in terms of subsection (1) *(a)*, value-added tax shall be levied and paid at the rate of 15 per cent for the benefit of the National Revenue.

Fund on an amount equal to the amount of such excise duty or environmental levy which, subject to any rebate of such excise duty or environmental levy under the said Act, is paid.

The amount is determined by subtracting Vat Payable from Vat Receivable.

### 6. Investment property

| | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 31,802,115 | (693,698) | 31,108,417 | 31,802,855 | (663,546) | 31,139,309 |

**Reconciliation of investment property - June 2020**

| | Opening balance | Disposals | Depreciation | Total |
| --- | --- | --- | --- | --- |
| Investment property | 31,139,309 | (740) | (30,152) | 31,108,417 |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
| --- | --- | --- |

**6. Investment property (continued)**

**Reconciliation of investment property - June 2019**

| | Opening balance | Disposals | Depreciation | Total |
| --- | --- | --- | --- | --- |
| Investment property | 31,194,596 | (25,137) | (30,150) | 31,139,309 |

**6.1 Rental Income from Investment Property**

| | 2020 | 2019 |
| --- | --- | --- |
| Direct income from rentals | 917,208 | 1,268,036 |

**6.2 Details of property**

**Property 1**
Erven 229, 735 and 736
Duration : 50 years
Termination date : 18 June 2046
The Rhino centre has 10% of the net rental and 2% is payable to the municipality, which is calculated on the turnover.

| | 2020 | 2019 |
| --- | --- | --- |
| - Purchase price: 1 July 1996 | 5,300,000 | 5,300,000 |

**Property 2**
Erven 231 and 232
Duration : 50 years
Termination date : 30 November 2061
Rental income is R148 620 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.

| | 2020 | 2019 |
| --- | --- | --- |
| - Purchase price: 1 December 2011 | 904,992 | 904,992 |
| - Accumulated depreciation | (693,698) | (663,546) |
| | **211,294** | **241,446** |

**Municipal Vacant Land**
Erven 152

| | 2020 | 2019 |
| --- | --- | --- |
| - Purchase price: 1 December 1997 | 13,136,123 | 13,136,863 |
| - Additions since purchase or valuation | 2,461,000 | 2,461,000 |
| | **15,597,123** | **15,597,863** |

**Property 4**
Erven 155
Duration: 50 years
Termination: 31 December 2062
Rental income is R285 952 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum.

| | 2020 | 2019 |
| --- | --- | --- |
| - Purchase price: 1 January 2013 | 10,000,000 | 10,000,000 |

| | 2020 | 2019 |
| --- | --- | --- |
| - Land- Shopping complex | 5,300,000 | 5,300,000 |
| - Building Hotel and housing | 211,294 | 241,446 |
| - Municipal vacant properties | 15,597,123 | 15,597,863 |
| - Land- Umzimkhulu mall | 10,000,000 | 10,000,000 |
| **Total Investment property** | **31,108,417** | **31,139,309** |

There were no repairs and maintainance on the investement property in this financial year.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 6. Investment property (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## Notes to the Annual Financial Statements

Figures in Rands

### 7. Property, plant and equipment

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 9,409,000 | - | 9,409,000 | 9,409,000 | - | 9,409,000 |
| Buildings | 48,482,319 | (15,844,045) | 32,638,274 | 47,985,210 | (14,703,499) | 33,281,711 |
| Infrastructure Assets | 471,240,982 | (278,623,908) | 192,617,074 | 460,026,657 | (256,977,573) | 203,049,084 |
| Community Assets | 208,835,562 | (29,361,737) | 179,473,825 | 177,991,651 | (24,307,759) | 153,683,892 |
| Other Fixed Assets | 57,250,735 | (28,144,041) | 29,106,694 | 54,742,943 | (23,915,797) | 30,827,146 |
| **Total** | **795,218,598** | **(351,973,731)** | **443,244,867** | **750,155,461** | **(319,904,628)** | **430,250,833** |

## Notes to the Annual Financial Statements

Figures in Rands

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - June 2020**

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 9,409,000 | - | - | - | - | 9,409,000 |
| Buildings | 33,281,711 | 497,109 | - | (1,140,546) | - | 32,638,274 |
| Infrastructure Assets | 203,049,084 | 13,352,490 | - | (22,786,686) | (997,814) | 192,617,074 |
| Community Assets | 153,683,892 | 34,097,514 | - | (5,053,979) | (3,253,602) | 179,473,825 |
| Other fixed assets | 30,827,146 | 5,406,048 | (896,375) | (6,230,125) | - | 29,106,694 |
| | **430,250,833** | **53,353,161** | **(896,375)** | **(35,211,336)** | **(4,251,416)** | **443,244,867** |

The opening balances on the above reconcilliation were restated
Reconcilliation of opening balances for 2020.

**Reconcilliation of opening balances**

| | Opening balance as previously reported | Reclassification | Adjustment correction of prior period error | Re-stated opening balance |
|---|---|---|---|---|
| Land | 9,409,000 | - | - | 9,409,000 |
| Buildings | 33,281,711 | - | - | 33,281,711 |
| Infrastructure assets | 202,117,612 | - | 931,473 | 203,049,085 |
| Community Assets | 159,367,466 | - | (5,683,601) | 153,683,865 |
| Other fixed assets | 30,825,987 | - | 1,158 | 30,827,145 |
| | **435,001,776** | **-** | **(4,750,970)** | **430,250,806** |

# Notes to the Annual Financial Statements

Figures in Rands

## 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - June 2019**

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 9,409,000 | - | - | - | - | 9,409,000 |
| Buildings | 34,733,306 | 274,546 | 1 | (1,726,138) | - | 33,281,711 |
| Infrastructure Assets | 210,411,526 | 27,430,649 | - | (34,793,091) | - | 203,049,084 |
| Community Assets | 131,400,479 | 27,497,717 | (156,986) | (4,594,285) | (463,033) | 153,683,892 |
| Other fixed assets | 23,220,331 | 12,712,900 | (5,457) | (5,100,628) | - | 30,827,146 |
| | **409,174,642** | **67,915,812** | **(162,442)** | **(46,214,142)** | **(463,033)** | **430,250,833** |

**Pledged as security**

There are no assets pleadged as security.

**Depreciation rates**

| Item | Depreciation method |
|---|---|
| Buildings | Straight line |
| Plant and machinery | Straight line |
| Furniture and fixtures | Straight line |
| Motor vehicles | Straight line |
| Office equipment | Straight line |
| IT equipment | Straight line |
| Computer software | Straight line |
| Infrastructure | Straight line |
| Community | Straight line |
| Other fixed assets | Straight line |

**Other information**

**Cumulative expenditure recognised in the carrying value of PPE**

**Other information**

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 7. Property, plant and equipment (continued)

| | | |
|---|---|---|
| **Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:** | | |
| WIP- Memorial hall | 20,638,082 | - |
| WIP- Ward 13 sports field | 5,528,973 | - |
| | **26,167,055** | **-** |

**WIP Memorial Hall**: The reasons for delays in WIP Memorial Hall: The construction of the Memorial hall was put on hold due to investigations on allegations however the investigation has been concluded, since then the project has resumed, and is expected to be completed in october 2021.

**WIP- Ward 13 sports field:** 1. Construction of Ward 13 Sportsfield the contractor tabled a dissatisfaction claim for short measurements on earthworks quantities certified by the Engineer and as a result the conctractor ceased construction from 14 June 2019 pending dispute resolution with an indication that he was experiencing a cash flow strain. Clause 10.2 and 10.3 of the GCC 2015 gives right to the contractor to submit a dissatisfaction claim or dispute note where deemed necesary. The Municipality engaged with the contractor and Engineer in trying to find common ground, however both could not reach mutual agreement, and in such cases clause 10.4.1 of the GCC 2015 shall apply, which reads "The parties may at any time, without prejudice to any other proceedings, agree to settle any claim or any dispute amicably with the help of an impartial (neural) third party. Amicable settlement may include any settlement technique as agreed by the parties". In view of that, in November 2019 the municipality appointed a mediator whom is qualified as a professional quantity surveyor.

2. The mediator carried an investigation over 2 months and the report of findings was issued in January 2020 with a recommendatinon that there is indeed a shortfall of quantities to the contractor and variation order for additional funding was approved by the Executive Council on 25 February 2020, and the contractor was ordered to resume duties in March 2020 with a plan to complete the project 10 June 2020, but due to the COVID-19 national lockdown the project suffered another unforeseen 6 weeks delay which led to the completion date being revised to 24 July 2020. The project is currently 96% complete and the contractor is on penulties for everyday on site from 25 July 2020 until completioin.

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 7. Property, plant and equipment (continued)

**Repairs and Maintainance**

| **Repairs and maintenance incurred to maintain property, plant and equipment is represented as follows:** | | |
|---|---|---|
| Buildings | 1,675,021 | 2,335,710 |
| Infrastructure assets | 5,091,870 | 6,648,791 |
| Community assets | 221,403 | - |
| Repairs on PPE | 2,416,958 | 2,279,498 |
| | **9,405,252** | **11,263,999** |

There are no items of PPE that are pleadged as security
Contracted committments for PPE are shown in note36
Carrying amounts for PPE items approximate fair values

The total for this note showing Repairs and Miantenance will not be the same as the amount in the face of the statement of performance since there, the expenditure is classified according to their nature, but since we have our own plan machinery this note allows us to actually show other expenses incured in repairing and maintaining our assets.

### 8. Intangible assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software | 1,833,740 | (1,138,826) | 694,914 | 2,061,461 | (1,217,319) | 844,142 |

**Reconciliation of intangible assets - June 2020**

| | **Opening balance** | **Additions** | **Disposals** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 844,142 | 277,356 | (3) | (426,581) | 694,914 |

**Reconciliation of intangible assets - June 2019**

| | **-** | **Additions** | **Disposals** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 1,105,362 | 394,840 | (9) | (656,051) | 844,142 |

### 9. Heritage assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Heritage assets under construction/development | 432,000 | - | 432,000 | 432,000 | (177,000) | 255,000 |

**Reconciliation of heritage assets- June 2020**

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 9. Heritage assets (continued)

| | Opening balance | Impairment losses reversal | Total |
|---|---|---|---|
| Heritage assets under construction/development | 255,000 | 177,000 | 432,000 |

**Reconciliation of heritage assets- June 2019**

| | Opening balance | Total |
|---|---|---|
| Heritage assets under construction/development | 255,000 | 255,000 |

| | | |
|---|---|---|
| **Included in heritage assets are assets that have been identified as taking significantly longer period of time to complete than expected, due to the following:** | | |
| Heritage assets under construction/ major rennovations | 255,000 | 255,000 |

The reasons for delays in WIP Memorial Hall: The construction of the Memorial hall was put on hold due to investigations on allegations however the investigation has been concluded, since then the project has resumed, and is expected to be completed in october 2021

There was no repairs and maintenance expenditure incurred on Heritage assets that took place in the current financial year.

## 10. Payables from exchange transactions

| | 2020 | 2019 |
|---|---|---|
| Payments received in advanced - contract in process | 568,021 | 557,362 |
| Accrued leave pay | 5,068,109 | 4,606,941 |
| Creditors accruals | 860,584 | 874,132 |
| Deposits received | 326,309 | 322,158 |
| Retention | 7,081,430 | 9,040,325 |
| Provision for Planning studies | 5,034,605 | 5,034,605 |
| | **18,939,058** | **20,435,523** |

## 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | 2020 | 2019 |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Sports Grant | 13,544,012 | 7,843,328 |
| MIG Grant | 24,092,371 | 9,437,931 |
| Development planning title deeds | 965,270 | 696,413 |
| Building plan management system | - | 152,079 |
| Disaster relief (Covid 19 Grant) | 442,827 | - |
| EDTEA Grant | - | 100,000 |
| | **39,044,480** | **18,229,751** |

## 12. Unspent Agent funds

| | 2020 | 2019 |
|---|---|---|
| Electrification Fund | 12,016,561 | - |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

**12. Unspent Agent funds (continued)**

| **Human Settlement Housing Capital fund** | | |
|---|---|---|
| Opening balance | - | 17,423,701 |
| Transfer in/out | - | (820,501) |
| Transfer back to Human settlement | - | (16,603,200) |
| | - | - |

| **Electrification Fund** | | |
|---|---|---|
| Opening balance | - | 5,253,010 |
| Current-year receipts | 13,000,000 | 15,000,000 |
| Conditions met | (983,439) | (20,253,010) |
| | **12,016,561** | - |

**Unspent Eletrification**

The INEP fund allocation was not spent in full during 2019/2020 financial year. The municipality experienced a number of challenges that lead to poor production and running of the programme which shall be outlined below:
- The responsible Electrification Technician experienced serious ill health of which by May 2019, he sadly succumbed to death leaving a big gap within the municipality to run the projects. The position of the technician has since been filled.

- During 25 March 2019 the municipality embarked in a process of inviting professional consultants in a pool of service provider as part of trying to shorten the procurement process to ensure full running of the programme. On the 5th of April 2019 also embarked in a process of appointing implementing Agent for the implementation of Rural electrification for 2019/2020 projects. However, the responses exceeded the available budget and we had to change the process, wait the pool of service providers and appoint consultant from the pool and appoint the contractor later on.

- The Municipality resolved to appoint a pool of consultants which was finalized in July 2019 and appointments were issued on the 26th of August 2019 and Izingodla consultants were appointed on the 18th of October 2019 from the pool of conduct designs and project manage the rural electrification for ward 4, 9, 13, 14& 18 projects. The final marketing resulted to a larger number of connections as opposed to the pre-planned. The Municipality had planned to do in-fills since all the green-fills have been completed, however the designs turned out to be extensions and the costs escalated. This exercis resulted to Council having to re-prioritize the villages to be served and further consultation had to be done with the communities since expectations had been raised. The number of connections was reduced from 1057 to 835 to fit within the available budget. The reduction of connection resulted to change in designs. During this process interaction with Eskom was extensive and they were very much helpful and co-operating in approving designs.

- The second advertisement for the contractor was re-issued: Tender briefing was on the 07th of February 2020 and closing date 28th February 2020 and the final appointment of contractor was on the 1st of June and it was delayed by COVID-19, our plan was to appoint the contractor by end of March 2020 and start construction by the end of April 2020 but due to national lockdown it was delayed. The contractor has since established on site on the 7th of July 2020 and has presented a clear programme of completing the project by end of April 2021.

Thus negatively impacting the finalisation of the electrification projects and such challenges have since been resolved and full recovery plan is in place.

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 13. Employee benefit obligations

**Long service awards**

| | | |
|---|---|---|
| Current service cost | 2,332,984 | 2,207,227 |
| Past service cost | 320,712 | 301,866 |
| Interest cost | 166,474 | 215,850 |
| Actuarial (gains) losses | 978,650 | (108,204) |
| Expected return on plan assets | (308,228) | (283,755) |
| | **3,490,592** | **2,332,984** |

Employees who achieve 5 years of service are granted 5 days paid leave, whilst employees who achieve 10 years of service are granted 10 days paid leave. Employees who achieve 15 years of service are granted 20 days paid leave. Employees who achieve 20 years of service are granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years of service are granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2020. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 9.40% (2019 : 7.45%) was used on internal rate of return.

**Split between short term and long term portion of obligation**

| | | |
|---|---|---|
| <1 year | 127,239 | 196,077 |
| >1 year | 3,363,353 | 2,136,907 |
| **Total accrued liability** | **3,490,592** | **2,332,984** |

**Key assumptions used**

The financial and demographic assumptions used in the valuation are as follows:

| | | |
|---|---|---|
| Discount rates used | 9.40 % | 7.45 % |
| Expected rate of return on reimbursement rights | 4.73 % | 4.04 % |
| Expected increase in salaries | 5.73 % | 5.04 % |
| Proportion of employees opting for early retirement | 3.47 % | 2.29 % |

The mortality rate of an individual is assumed to be 85-90.

The normal retirement age is assumed to be 65 years.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 14. Provisions

**Reconciliation of provisions - June 2020**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Landfill site provision | 4,202,863 | 427,137 | 4,630,000 |

**Reconciliation of provisions - June 2019**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Landfill site provision | 3,021,121 | 1,181,742 | 4,202,863 |

**Landfill site**

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life which is 5 months and reflects its present value.

.Please note the municipality has requested that they may make use of the Mankofu Waste Disposal Site for an addition twelve months from 30 June 2020. Based on the above calculation the auditor has recommended that the site be used for additional 5 months as of June 2020.

## 15. Housing operating account

Human Settlement Housing Development Fund

| | 2020 | 2019 |
|---|---|---|
| Opening balance | 23,586,446 | 21,119,441 |
| Transfer in/out | - | 1,204,625 |
| Current year interest | 1,253,858 | 1,262,380 |
| | **24,840,304** | **23,586,446** |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 16. Accumulated surplus

Reconciliation of accumulated surplus- June 2020

| | Opening balance | Surplus for the year | Prior period adjustments | Total |
|---|---|---|---|---|
| Opening balance | 585,045,385 | 41,223,780 | - | 626,269,165 |

Reconciliation of accumulated surplus- June 2019

| | Opening balance | Adjustments during the year | Surplus for the year | Total |
|---|---|---|---|---|
| Opening balance | 573,496,383 | (4,765,204) | 16,314,206 | 585,045,385 |

### 17. Interest received - investment

| | 2020 | 2019 |
|---|---|---|
| **Interest revenue** | | |
| Bank | 352,823 | 218,955 |
| Short term investments | 12,675,163 | 13,797,525 |
| | **13,027,986** | **14,016,480** |

### 18. Investment Property Rentals

| | 2020 | 2019 |
|---|---|---|
| **Premises** | | |
| Facilities and Buildings | 585,832 | 474,910 |
| Rentals on Municipal Land | 818,199 | 793,126 |
| | **1,404,031** | **1,268,036** |

### 19. Service charges

| | 2020 | 2019 |
|---|---|---|
| Solid waste | 133,983 | 124,264 |
| Waste disposal | 798,854 | 793,034 |
| Refuse removal | 1,759,274 | 1,890,606 |
| | **2,692,111** | **2,807,904** |

### 20. Other revenue

| | 2020 | 2019 |
|---|---|---|
| Tender income | 287,865 | 203,899 |
| Clearance certificates | 6,409 | 3,286 |
| Refund income | - | 10,563 |
| Cemetry fees | 7,237 | 8,452 |
| Hall fees | 58,100 | 78,197 |
| Copyright/ royalty | 48,257 | 82,651 |
| Seta fund | 201,010 | 169,775 |
| Isurance refund | 66,944 | - |
| PDA applications for land usage | 7,952 | 10,357 |
| Advertising income | 61,697 | 71,689 |
| Building plans and servitudes | 41,230 | 83,654 |
| PDA application for MAP | 1,513 | 4,261 |
| Proceeds on Disposals | 73,028 | 75,336 |
| Over banking | 145 | 602 |
| Refuse bags | - | 522 |
| | **861,387** | **803,244** |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
| --- | --- | --- |

### 21. Agency services

| | | |
| --- | --- | --- |
| Vehicle registration | 421,773 | 592,485 |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 22. Property rates

**Rates raised**

| | | |
|---|---|---|
| Residential | 2,097,181 | 1,807,647 |
| Commercial | 4,147,990 | 4,135,382 |
| State | 5,874,699 | 4,410,800 |
| Less: rebates | (2,299,425) | (3,066,248) |
| | **9,820,445** | **7,287,581** |

**Valuations**

| | | |
|---|---|---|
| Residential | 342,143,800 | 342,143,800 |
| Commercial | 270,101,000 | 270,101,000 |
| State | 2,100,000 | 2,100,000 |
| Municipal | 170,614,000 | 170,614,000 |
| Small holdings and agriculture | 235,526,190 | 235,526,190 |
| Industrial | 3,179,000 | 3,179,000 |
| Place of worship | 12,854,000 | 12,854,000 |
| Agriculture | 764,552,500 | 764,552,500 |
| Public service infrastructure | 12,778,000 | 12,778,000 |
| Communal property | 2,365,780 | 2,365,780 |
| Vacant land | 19,851,200 | 19,851,200 |
| Public service purposes | 689,662,900 | 689,662,900 |
| | **2,525,728,370** | **2,525,728,370** |

| **Description** | Number of properties | Tariffs |
|---|---|---|
| Agriculture | 460 | 0.0022 |
| Agricultural smallholding | 256 | 0.0022 |
| Commercial | 64 | 0.0135 |
| Communal properties | 4 | 0.0021 |
| Industrial | 2 | 0.0022 |
| Municipal | 780 | 0,0088 |
| Public service infrastructure | 82 | 0.0088 |
| Residential | 2,592 | 0.0088 |
| Public service purpose | 190 | 0.0021 |
| Vacant land | 592 | 0.017, 0.022 |
| State owned | 2 | 0.0088 |
| Place of worship | 13 | 0.0088 |
| | **5,037** | |

As per the amended MPRA valuations on land and buildings are performed every 5 years. The new general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council's approved Rates policy.State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council's approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges, 60% rebate granted for commercial properties as per Council approval.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 23. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 189,217,000 | 169,032,000 |
| FMG Grant | 1,900,000 | 1,900,000 |
| Maintainance Grant- sports facility | - | 50,000 |
| Arts and Culture- Library | 1,714,000 | 1,617,000 |
| Expanded Public Works Program | 2,352,000 | 2,324,000 |
| Development planning tittle deeds | 203,143 | - |
| Disaster relief (Covid 19 Grant) | 302,173 | - |
| EDTEA Grant | 100,000 | - |
| | **195,788,316** | **174,923,000** |
| **Capital grants** | | |
| Small town development | - | 13,312,581 |
| MIG Grant | 40,718,560 | 38,749,688 |
| Sports Grant | 2,542,316 | 292,232 |
| Building plans management system | 152,079 | 347,921 |
| | **43,412,955** | **52,702,422** |
| | **239,201,271** | **227,625,422** |

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

**Development planning tittle deeds**

| | | |
|---|---|---|
| Balance unspent at beginning of the year | 696,413 | - |
| Current-year receipts | 472,000 | 696,413 |
| Conditions met - transferred to revenue | (203,143) | - |
| | **965,270** | **696,413** |

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The municipality initiated a Public Notice to call forward all the missing beneficiaries in June 2019 and has a number of beneficiaries who have not presented themselves to the municipality as means of confirming their existence. The municipality has further formed a Dispute Resolution Committee which has so far sat once on the Month of March 2020.

Due to the National Lockdown, the municipality has been constrained to perform further duties pertaining to the programme and therefore, has not been able to carry out any fiscal expenditure in this regard. Taking cognisance of the subtle nature of the remaining work which requires full support from all committee representatives as well as presence of public and/or disputants, this has called for a temporary stalling of the programme until such a time as when lockdown regulations have been uplifted and all participants of the programme are officially able to render their services to the utmost degree to successfully accomplish the set targets.

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 23. Government grants and subsidies (continued)

**Finance Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,900,000 | 1,900,000 |
| Conditions met - transferred to revenue | (1,900,000) | (1,900,000) |
| | - | - |

The purpose of this grant is to promote sound financial management

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

**Arts and Culture Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,714,000 | 1,617,000 |
| Conditions met - transferred to revenue | (1,714,000) | (1,617,000) |
| | - | - |

The purpose of this grant is to fund the salaries for the Librarians.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

**Municipal Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 9,437,931 | 5,651,619 |
| Current-year receipts | 55,373,000 | 42,536,000 |
| Conditions met - transferred to revenue | (40,718,560) | (38,749,688) |
| | **24,092,371** | **9,437,931** |

### 23. Government grants and subsidies (continued)

The purpose for this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : .

Reason(s) for unspent grant : The project construction started on the 20th of August 2018, and it was initially planned to complete 10 June 2019 which was not achieved and was motivated and approved for rollover 2019/2020, however, during 2019/2020 financial year the project incurred the following delays, and as a result the project ran beyond 30 June 2020.

1. Construction of Ward 13 Sportsfield the contractor tabled a dissatisfaction claim for short measurements on earthworks quantities certified by the Engineer and as a result the conctractor ceased construction from 14 June 2019 pending dispute resolution with an indication that he was experiencing a cash flow strain. Clause 10.2 and 10.3 of the GCC 2015 gives right to the contractor to submit a dissatisfaction claim or dispute note where deemed necesary. The Municipality engaged with the contractor and Engineer in trying to find common ground, however both could not reach mutual agreement, and in such cases clause 10.4.1 of the GCC 2015 shall apply, which reads "*The parties may at any time, without prejudice to any other proceedings, agree to settle any claim or any dispute amicably with the help of an impartial (neural) third party. Amicable settlement may include any settlement technique as agreed by the parties*". In view of that, in November 2019 the municipality appointed a mediator whom is qualified as a professional quantity surveyor.

2. The mediator carried an investigation over 2 months and the report of findings was issued in January 2020 with a recommendatinon that there is indeed a shortfall of quantities to the contractor and variation order for additional funding was approved by the Executive Council on 25 February 2020, and the contractor was ordered to resume duties in March 2020 with a plan to complete the project 10 June 2020, but due to the COVID-19 national lockdown the project suffered another unforeseen 6 weeks delay which led to the completion date being revised to 24 July 2020. The project is currently 96% complete and the contractor is on penulties for everyday on site from 25 July 2020 until completioin.

**Small Town Development Grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | - | 13,312,581 |
| Conditions met - transferred to revenue | - | (13,312,581) |
| | - | - |

The grant was fully spent accoding to its conditions
The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant :

**Sports Grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | 7,843,328 | 286,060 |
| Current-year receipts | 8,243,000 | 7,849,500 |
| Conditions met - transferred to revenue | (2,542,316) | (292,232) |
| | **13,544,012** | **7,843,328** |

Conditions still to be met - remain liabilities (see note 11).

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 23. Government grants and subsidies (continued)

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The initial site that was zoned for the Harry Gwala Multipurpose Sports Centre project was located at Clydesdale, +- 6km from UMzimkhulu CBD. The Implementing Agent was appointed on 26 September 2018 to start with the designs and the BIA was conducted and approved for the proposed development. At site establishment the community denied that the project be implemented in the designated site due to other community demands which could not be fulfilled.

Regardless of several engagements and interventions, the Community was not eager to cooperate and participate as expected. Eventually on 26 June 2019 the Council resolved that the project be relocated to Embezweni or EButa Farm. Both sites were highly recommended and ideal for the proposed development; however were just awaiting the donation agreement to be finalized by its custodian Department of Public Works. Since the Council resolution further delays were incurred as follows:

(i) The Land Donation Agreement process with DPW took 2 years, way longer than anticipated, the initial application was submitted in June 2018 and the approval was received in August 2020.

(ii) The conclusion of the Spatial Planning and Land Use Management application process was dependent on (i) above, and has since been concluded, EIA and WULA approvals received, Contractor appointed and construction commenced 08 August 2020.

In addition, the COVID 19 National Lockdown Level 5 resulted to a 6 weeks unforeseen delay in all the construction activities, thus affecting the planned construction and expenditure targets. Beyond Level 5 National Lockdown more delays continue to be experienced with the delivery of materials due to the challenges faced by manufacturers and suppliers leading to delivery backlog and in some cases alternating workers due to being direct contacts with infected parties etc. In view of all the above, the Municipality is ensuring close monitoring to avoid unnecessary delays

**Building plan management system grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | 152,079 | - |
| Current-year receipts | - | 500,000 |
| Conditions met - transferred to revenue | (152,079) | (347,921) |
| | **-** | **152,079** |

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

**Maintainance Grant- sports facility**

| | 2020 | 2019 |
|---|---|---|
| Current-year receipts | - | 50,000 |
| Conditions met - transferred to revenue | - | (50,000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

**EDTEA Grant**

| | 2020 | 2019 |
|---|---|---|
| Balance unspent at beginning of year | 100,000 | - |
| Current-year receipts | - | 100,000 |
| Conditions met - transferred to revenue | (100,000) | - |
| | **-** | **100,000** |

Conditions still to be met - remain liabilities (see note 11).

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 23. Government grants and subsidies (continued)

The Grant was only received by the municipality in March, and was not even budgeted for.

**Expanded Public Works Programme**

| | | |
|---|---|---|
| Current-year receipts | 2,352,000 | 2,324,000 |
| Conditions met - transferred to revenue | (2,352,000) | (2,324,000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 11).

The purpose of this grant is to reduce peverty and unemployemnt.

**Disaster relief (Covid 19)**

| | | |
|---|---|---|
| Current-year receipts | 745,000 | - |
| Conditions met - transferred to revenue | (302,173) | - |
| | **442,827** | - |

Conditions still to be met - remain liabilities (see note 11).

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : The grant allocation was not spent due to number of challenges and those challenges have been outlined below:
• Due to number of confirmed positive cases (Covid 19) within the UMzimkhulu Municipality other operations were delayed as the municipality had to close down and abide to Covid -19 regulations.
• Due to SCM processes to be followed when appointing the service provider there were delays to appoint a service provider as all bidders who responded were non responsive and therefore the tender had to be re-advertised and the closing date for this tender was the 21 of August 2020. We therefore request a roll-over of Covid- 19 grant that will be spent once the service provider has been appointed.

## 24. Revenue

| | | |
|---|---|---|
| Service charges | 2,692,111 | 2,807,904 |
| Rental of facilities and equipment | 1,404,031 | 1,268,036 |
| Interest received (trading) | 457,152 | 395,572 |
| Agency services | 421,773 | 592,485 |
| Licences and permits | 88,571 | 67,350 |
| Impairment loss reversal | 177,000 | - |
| Other revenue | 861,387 | 803,244 |
| Interest received - investment | 13,027,986 | 14,016,480 |
| Property rates | 9,820,445 | 7,287,581 |
| Government grants & subsidies | 239,201,271 | 227,625,422 |
| Public contributions and donations | 100 | 26,087 |
| Fines, Penalties and Forfeits | 752,455 | 840,765 |
| Learners and licences | 409,490 | 656,584 |
| | **269,313,772** | **256,387,510** |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 24. Revenue (continued)

| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
|---|---|---|
| Service charges | 2,692,111 | 2,807,904 |
| Rental of facilities and equipment | 1,404,031 | 1,268,036 |
| Interest received (trading) | 457,152 | 395,572 |
| Agency services | 421,773 | 592,485 |
| Licences and permits | 88,571 | 67,350 |
| Impairment loss reversal | 177,000 | - |
| Other Revenue | 861,387 | 803,244 |
| Interest received - investment | 13,027,986 | 14,016,480 |
| | **19,130,011** | **19,951,071** |

| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
|---|---|---|
| **Taxation revenue** | | |
| Property rates | 9,820,445 | 7,287,581 |
| **Transfer revenue** | | |
| Government grants & subsidies | 239,201,271 | 227,625,422 |
| Public contributions and donations | 100 | 26,087 |
| Fines, Penalties and Forfeits | 752,455 | 840,765 |
| Learners and licences | 409,490 | 656,584 |
| | **250,183,761** | **236,436,439** |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 25. Employee related costs

| | | |
|---|---|---|
| Basic | 63,562,503 | 59,241,225 |
| Bonus | 4,477,387 | 4,129,144 |
| Medical aid - company contributions | 4,764,876 | 4,187,482 |
| UIF | 468,255 | 441,223 |
| Leave pay provision charge | - | 179,316 |
| Leave encashment | 3,112,344 | 2,418,234 |
| Shift and danger allowance | 1,410,248 | 1,219,255 |
| Bargaining council | 21,203 | 19,803 |
| Pension fund- municipal contributions | 7,948,943 | 7,157,534 |
| Travel, motor car, accommodation, subsistence and other allowances | 7,302,214 | 6,111,025 |
| Overtime payments | 3,558,657 | 2,713,383 |
| Acting allowances | 180,381 | 220,235 |
| Housing benefits and allowances | 1,826,477 | 1,787,214 |
| Actuarial gain/loss | 978,650 | (108,204) |
| Cellphone expenses | 798,999 | 751,372 |
| Standby Allowance | 523,788 | 507,000 |
| | **100,934,925** | **90,975,241** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual remuneration | 799,067 | 778,376 |
| Bonus Cotract | 119,303 | 113,191 |
| Backpay | 30,930 | 28,298 |
| Travel Allowance | 276,160 | 324,323 |
| Contribution to UIF, Medical and pension funds | 199,766 | 194,592 |
| Cellphone allowance | 27,000 | 27,000 |
| Subsistance allowance | 16,007 | 11,939 |
| Leave encashment | 50,212 | 47,639 |
| | **1,518,445** | **1,525,358** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual remuneration | 716,214 | 653,957 |
| Bonus Cotract | 100,233 | 95,098 |
| Backpay | - | 23,775 |
| Travel Allowance | 298,416 | 270,626 |
| Contribution to UIF, Medical and pension funds | 89,527 | 78,496 |
| Cellphone allowance | 27,000 | 27,000 |
| Subsistance allowance | 27,433 | 42,586 |
| Housing allowance | 89,526 | 78,496 |
| Leave encashment | 201,978 | 40,024 |
| | **1,550,327** | **1,310,058** |

**Remuneration of Infrastructure and Engineering Manager**

| | | |
|---|---|---|
| Annual remuneration | 628,571 | 610,775 |
| Bonus Cotract | 93,615 | 88,819 |
| Backpay | 37,273 | 38,020 |
| Travel Allowance | 261,905 | 254,489 |
| Contribution to UIF, Medical and pension funds | 104,762 | 101,794 |
| Cellphone allowance | 27,000 | 27,000 |
| Subsistance allowance | 18,814 | 20,133 |
| Housing allowance | 43,340 | 50,897 |
| Leave encashment | 39,400 | - |
| | **1,254,680** | **1,191,927** |

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 25. Employee related costs (continued)

**Remuneration of Corporate Services Manager**

| | | |
|---|---|---|
| Annual remuneration | - | 193,611 |
| Travel Allowance | - | 96,806 |
| Contribution to UIF, Medical and pension funds | - | 32,268 |
| Cellphone allowance | - | 9,000 |
| Subsistance allowance | - | 7,445 |
| | **-** | **339,130** |

The post for Corporate services manager is currently vacant.

**Remuneration of Community and Social Services Manager**

| | | |
|---|---|---|
| Annual remuneration | 616,586 | 599,128 |
| Bonus Cotract | 91,930 | 87,125 |
| Backpay | 36,562 | 17,425 |
| Travel Allowance | 256,911 | 249,637 |
| Contribution to UIF, Medical and pension funds | 154,146 | 149,780 |
| Cellphone allowance | 27,000 | 27,000 |
| Subsistance allowance | 20,442 | 13,794 |
| Leave encashment | 38,648 | - |
| | **1,242,225** | **1,143,889** |

**Remuneration of Strategic Planning and Development Manager**

| | | |
|---|---|---|
| Annual remuneration | 672,260 | 653,227 |
| Bonus Cotract | 100,122 | 94,992 |
| Backpay | 39,863 | 23,748 |
| Travel Allowance | 280,108 | 272,178 |
| Contribution to UIF, Medical and pension funds | 168,065 | 163,306 |
| Cellphone allowance | 27,000 | 27,000 |
| Subsistance allowance | 7,571 | 14,903 |
| Leave encashment | 42,139 | 39,980 |
| | **1,337,128** | **1,289,334** |

### 26. Remuneration of Councillors

| | | |
|---|---|---|
| Mayor | 830,507 | 809,177 |
| Deputy Mayor | 664,404 | 647,341 |
| Executive members | 2,177,233 | 1,890,906 |
| Speaker | 443,674 | - |
| Chief Whip | 622,878 | 606,883 |
| Councillors' basic allowance | 5,902,775 | 5,192,681 |
| Councillors' travel allowance | 2,015,187 | 1,808,551 |
| Councillors' pension fund contribution | 1,278,934 | 1,157,398 |
| Councillors' medical aid contribution | 124,753 | 121,635 |
| Councillors' cellphone allowances | 1,666,000 | 1,570,800 |
| Housing allowance | 197,116 | 192,055 |
| | **15,923,461** | **13,997,427** |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
| --- | --- | --- |

### 26. Remuneration of Councillors (continued)

**Ward committee expenses**

In-kind-benefits:

The Mayor has a fixed contract secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker's office has a full time secretary.

**Number of employees:**

The number of Councillors is 42 and 245 employees as at 30 June 2020 (June 2019 : 245).

### 27. Debt impairment

| | | |
| --- | --- | --- |
| Traffic fines | 496,350 | 405,153 |
| Rates and refuse | 1,627,922 | 1,760,687 |
| | **2,124,272** | **2,165,840** |

Contributions to debt impairment relates to increase in bad debt provision made to traffic fines, and rates and refuse.

### 28. Depreciation and amortisation

| | | |
| --- | --- | --- |
| Property, plant and equipment | 35,211,334 | 46,967,679 |
| Investment property | 30,152 | 30,150 |
| Intangible assets | 426,581 | 656,051 |
| | **35,668,067** | **47,653,880** |

### 29. Finance costs

| | | |
| --- | --- | --- |
| Landfill site provision | 427,137 | 1,181,742 |
| Actuarial interest | 487,186 | 517,716 |
| | **914,323** | **1,699,458** |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 30. General expenses

| | | |
|---|---|---|
| External Audit fees | 1,784,291 | 1,777,605 |
| Advertising | 1,184,516 | 2,056,788 |
| Bank charges | 94,603 | 55,116 |
| Electricity | 7,288,768 | 5,546,672 |
| Equipment hire | 383,085 | 280,546 |
| Insurance | 1,249,743 | 976,862 |
| IT expenses | 3,495,199 | 4,319,672 |
| Skills development fund | 791,514 | 877,815 |
| Artists and performers | 741,800 | 1,088,550 |
| Motor vehicle expenses | 176,982 | 312,740 |
| Materials and supplies | 1,493,737 | 924,216 |
| Fuel and oil | 3,074,296 | 2,373,262 |
| Postage and courier | 17,537 | 36,759 |
| Printing and stationery | 1,308,199 | 1,638,278 |
| Subscriptions and membership fees | 1,450,795 | 772,876 |
| Telephone and fax | 2,782,939 | 2,783,042 |
| Transport | 349,630 | 700,050 |
| Subsistance and travelling | 3,364,045 | 9,207,579 |
| Assets expensed | 91,490 | 511,719 |
| Water | 99,286 | 231,958 |
| Uniform and protective closing | 414,717 | 821,907 |
| Workman's compansation | 410,343 | 357,052 |
| Ward committee stipent | 2,655,000 | 2,747,000 |
| Office Decorations | 71,144 | - |
| Servitutes and land survey | 1,329,931 | 3,385,350 |
| Achievements and Awards | 145,000 | 510,886 |
| Workshops and Events | 761,827 | 809,612 |
| Travel Agency and Visa | 124,362 | 262,210 |
| Learnerships and Internships | 380,000 | 234,000 |
| Bursaries (Employees) | 723,060 | 655,722 |
| Archieves | 23,556 | 23,553 |
| | **38,261,395** | **46,279,397** |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 31. Contracted services

| | | |
|---|---|---|
| Consultants fees | 3,247,711 | 4,266,176 |
| Security services | 8,071,459 | 8,332,666 |
| Catering services | 1,053,098 | 2,238,132 |
| Repairs and maintenance | 9,768,722 | 11,490,472 |
| Audio and visuals | 604,250 | 583,200 |
| Litter picking and street cleaning | 500,783 | 327,412 |
| Accounting and auditing | 632,816 | 654,317 |
| Legal advice and litigation | 455,969 | 1,158,579 |
| LIMA LED Partnership | - | 546,000 |
| Subject Matter Training | 147,542 | 764,973 |
| Administrative and support staff | 218,600 | 207,100 |
| Animal care | - | 58,585 |
| Burial services | - | 38,110 |
| Occupational Health and Safety | 25,826 | 302,182 |
| Business and advisory | 107,500 | 174,000 |
| Qualification verification | 25,400 | 30,125 |
| Feasibility studies | - | 4,346,442 |
| Research and advisory | 402,469 | - |
| Personnel and labour (Casuals) | 880,898 | 1,197,982 |
| Commissions and Committees | 26,603 | 10,905 |
| Cleaning services | 1,201,297 | 681,149 |
| Fire protection | 275,904 | - |
| | **27,646,847** | **37,408,507** |

The contracted services that were previously reported in 2019 were reclassified.

## 32. Operating surplus

Operating surplus for the year is stated after accounting for the following:0

| | | |
|---|---|---|
| **Operating lease charges** | | |
| Equipment | | |
| • Contractual amounts | 451,470 | 392,057 |
| | | |
| Amortisation on intangible assets | 426,581 | 656,051 |
| Depreciation on property, plant and equipment | 35,211,334 | 46,967,679 |
| Depreciation on investment property | 30,152 | 30,150 |
| Employee costs | 116,858,386 | 104,972,668 |

## Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 33. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 41,223,780 | 14,855,415 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 35,668,067 | 47,653,880 |
| Debt impairment | 2,124,272 | 3,238,647 |
| Impairment loss | 4,251,416 | 463,034 |
| Impairment loss reversal | 177,000 | - |
| Movements in retirement benefit assets and liabilities | 1,157,607 | 125,757 |
| Movements in provisions | 427,137 | 1,181,742 |
| Bad debts written off | 905,472 | 1,072,807 |
| Other non-cash items | (4,769,501) | (8,214,847) |
| **Changes in working capital:** | | |
| Receivables from exchange transactions (Statutory receivables) | 354,061 | 140,948 |
| Receivables from non-exchange transactions | 273,941 | 153,296 |
| Payables from exchange transactions | (1,496,471) | 5,878,976 |
| VAT | 1,661,257 | (4,837,222) |
| Unspent conditional grants and receipts | 20,814,729 | (1,020,508) |
| Agents funds | 12,016,561 | 15,000,000 |
| Housing development and electrification fund proceeds paid | - | (36,856,210) |
| | **114,789,328** | **38,835,715** |

### 34. Contingent liabilities

#### Legal claims

Various claims submitted to the municipality are in the process of being resolved.
Should the respective claimants be successful with their claims, the estimated Municipal liability on such claims, is disclosed below'.

Legal disputes relate to:

| | | |
|---|---|---|
| Invasion of municipal land and illegal structures | 390,000 | 125,000 |
| Municipal investigations and employees disputes | 70,510 | 100,000 |
| Contractual dispute | 90,000 | 20,000 |
| Breach of contract | - | 3,000 |
| Outstanding settlements | 50,000 | 20,000 |
| Opposing action for damages | 60,000 | 80,000 |
| PIE Application | 60,000 | - |
| Business licence application | 60,000 | - |
| Interdict application | 120,000 | - |
| Evictions | 110,000 | - |
| Claim for refund | 1,457 | - |
| | **1,011,967** | **348,000** |

The increase on the estimated contingent liability its due to new litigations and claims against the municipality relating to the above legal disputes.

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 35. Commitments

#### 35.1 Authorised capital expenditure

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Buildings | 43,193,954 | 8,568,849 |
| • Community assets | 59,252,745 | 4,816,715 |
| • Infrastructure assets | 9,570,288 | 5,274,439 |
| • Intangible assets | - | 146,579 |
| | **112,016,987** | **18,806,582** |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 112,016,987 | 18,806,582 |

**Buildings**: the commitments has increased significantly due to the continuation of the completion of the Memorial Hall with revised scope as per AMAFA recommendations and revised designs approval by AMAFA.

**Community:** the increase is due the implementation of Harry Gwala Multi-Purpose Centre which was put on hold due land dispute issues and the project has been reallocated to the new site.

The amounts of commitments include VAT

#### 35.2 Operating leases - as lessee (expense)

**At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | - | 25,056 |

8 Photocopy Machines (Nashua): The municipality then entered into new lease agreement of 8 machines that started on 1st of June 2016, and the monthly rental is payable at the end of each month over the period of 36 months.

#### 35.3 Operating leases - as lessor (income)

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 1,856,919 | 1,829,741 |
| - in second to fifth year inclusive | 3,723,132 | 3,994,474 |
| - later than five years | 18,455,176 | 19,008,611 |
| | **24,035,227** | **24,832,826** |

The municipality leased vacant land to a property developers whom has developed uMzimkhulu Mall, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 36. Risk management

### 36.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

| | | |
|---|---|---|
| **Financial Assets** | | |
| Petty cash | 1,759 | 1,735 |
| Bank balance | 1,634,246 | 1,481,306 |
| Short-term deposits | 244,548,252 | 180,005,665 |
| Receivables from exchange transactions | 1,536,903 | 1,890,964 |
| Receivables from non-exchange transactions | 2,852,835 | 3,126,776 |
| | **250,573,995** | **186,506,446** |

| | | |
|---|---|---|
| **Financial Liabilities** | | |
| Payables from exchange transactions | 18,939,058 | 20,435,523 |
| Unspent conditional grants | 39,044,480 | 18,229,751 |
| Unspent Agents funds | 12,016,561 | - |
| | **70,000,099** | **38,665,274** |

### 36.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | | |
|---|---|---|
| Payables from exchange transactions | 18,939,058 | 20,435,523 |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

## 36. Risk management (continued)

### 36.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

| Balances exposed to the interest rate risk: | | |
|---|---|---|
| Bank balances | 1,634,246 | 1,481,306 |
| Short-term deposits | 244,548,252 | 180,005,665 |
| | **246,182,498** | **181,486,971** |

### 36.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

| Financial Instrument | 2020 | 2019 |
|---|---|---|
| Receivables from exchange transactions | 1,536,903 | 1,890,964 |
| Receivables from non-exchange transactions | 2,852,835 | 3,126,776 |
| Receivables from exchange past due not impaired | 550,232 | 914,451 |
| Receivables from non-exchange past due not impaired(government debt included) | 2,634,569 | 2,738,401 |
| | 7,024,307 | 8,446,847 |

## 37. Fruitless and Wasteful Expenditure

There was no fruitless and wasteful expenditure in the current financial year..

## 38. Irregular Expenditure

| | | |
|---|---|---|
| Opening balance | 23,715,325 | 13,662,257 |
| add: irregular expenditure- current year | 5,552,016 | 10,951,900 |
| add: irregular expenditure- prior year discovered this year | - | 18,370,327 |
| less: amount written-off by Council | (29,267,341) | (19,269,159) |
| **Closing balance** | **-** | **23,715,325** |

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 38. Irregular Expenditure (continued)

**Opening balace of irregular expenditure of R23 715 325**: the investigation determined that there was no evidence to demonstrate that any political office bearers or municipal officials have acted in bad faith or may be held responsible for deliberately committing, making or authorising the irregular expenditure incurred by the Municipality

There was no demonstrable evidence to indicate that municipal officials may have acted negligently committing, making or authorising the irregular expenditure that has been incurred. Instead, there were strong indications that the irregular expenditure, in some instances, has its genesis in the misunderstanding, misinterpretation and incorrect application of the applicable legal provisions by officials in the supply chain management department of the Municipality, as a collective. In addition, the Municipality has received value for its money in all projects in which the irregular expenditure was incurred. In other words, the Municipality has not suffered any patrimonial or financial loss and it follows that there is no expenditure to recover.
Therefore the Municipal council resolved to writte-off the irregular expenditure amounting to R23 715 325 as irrecoverable

**Irregular expenditure of R256 819** : relates to payments made to suppliers that were appointed while their tax matters were not in oder, the non-compliance notification letters were issued to service providers, however the municipality could not wait 10 days before appointing them, but the municipality thought that the notification for them to fix their tax statues could go concurrently with the 14 days waiting pedioe for apeals, however the appointment letter was supposed to only be issued after the service provider has sorted their tax matters as per circular 90. this was then reported to the MPAC and it did its investigation and recommended that the council should write-off this irregular expenditure.

**Irregular expenditure of R5 295 197**: The expenditure relate to the projects that were investigated by the MPAC and written-off by Council, but they are outer-years projects.

### 39. Unauthorised Expenditure

There was no unauthorised expenditure in the current financial year, and there was nothing in the prior year as well.

### 40. Additional disclosures in terms of the Municipal Finance Management Act

**Contributions to organised local government**

| | | |
|---|---|---|
| Current year subscription / fee | 1,144,230 | 767,716 |
| Amount paid - current year | (1,144,230) | (767,716) |
| | - | - |

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 1,784,291 | 1,777,605 |
| Amount paid - current year | (1,784,291) | (1,777,605) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 17,153,842 | 14,861,979 |
| Amount paid - current year | (17,153,842) | (14,861,979) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 3,175,965 | 4,837,222 |

All VAT returns have been submitted by the due date throughout the year.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

### 41. Related parties

**Related party balances**

**Councillors- in arrears more than 90 days**

No councillors were in arrears at the end of the current financial year

| | | |
|---|---|---|
| **Section 57 employees** | | |
| Remuneration paid | 6,902,805 | 7,076,250 |

The detailed section 57 employees cost break down is on note 25}

| | | |
|---|---|---|
| **Councillors** | | |
| Remuneration paid | 15,923,461 | 13,997,427 |

Remuneration of councillors disclosed in note26

| | | |
|---|---|---|
| **Employee lease rentals** | | |
| N. Tyekela | 16,532 | 15,715 |
| K. Dweba | 16,532 | 15,715 |
| Mr Maphumulo | 2,549 | 2,549 |
| Mr Sosibo | 2,549 | 2,549 |
| Mr Sikhosana | 2,549 | 2,549 |
| Mr Mncwabe | 2,124 | 2,549 |

### 42. Awards to companies with close family members of persons in the service of the state

| **Supplier name** | Director's name | person in the service of state | Position of Employee | awarded amount |
|---|---|---|---|---|
| Tower City Trading | Andile Mbalo(Husband) | Kholeka Mbalo | Community and Social Services Manager (Umzimkhulu Municipality) | 7,036,406 |
| Abroad success | Perfect Mbalo (Child) | Kholeka Mbalo | Community and Social Services Manager (Umzimkhulu Municipality) | 529,705 |
| Siyakwethemba contractors | Siyakwethemba Mbuthuma | Unam Mbuthuma | Expenditure manager (Umziwabantu Municipality | 5,401,918 |
| | | | | **12,968,029** |

These awards were made following normal competitive processes.

# Notes to the Annual Financial Statements



### 43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

**There were deviations amounting to R460 735 in the current financial year.**
the breakdown of these deviations is as follows:
- in the procurement of fire arms for R104 480: there were only 2 service providers that responded to the invitation to quote, and there was an emegency.
- The grocer of R108 499 procured from Boxer in response to a disaster, as social relief.
- Cutting and removal of trees in response to the disaster amounting to R85 000.
- Appointment letter issued prior to expiry of 14 days of apeals period, for the hire and erection of speed fencing amounting toR84 500
- Broadcasting of the 2020/2021 budget speech, due to the covid 19 amounting to R78 257

### 44. Events after the reporting date

There was an adjustment of event on the extension to timelines for submission of annual financial statements, annual reports, audits and related matters in terms of the MFMA in terms of section 171(1) (b) of the MFMA, "Gazette" published on 05 August 2020.

### 45. Prior period errors

Property, Plant and Equipment

For some **Community assets** there was an error where feasibility studies were incorrectly recorded as work in progress in the prior years which overstated community assets.

# Notes to the Annual Financial Statements

| Figures in Rands | 2020 | 2019 |
|---|---|---|

**45. Prior period errors (continued)**

The effect of this error is as follows:
Community assets decreased by R3 299 537
Accumulated surplus also decreased by R3 299 537

some community assets were not capitalised even though they were completed in the prvious years.
The error was identified in the current year
the effect of the error is as follows:
Community assets: accumulated depreciation increased by R116 400.89

Some infrastructure assets were not capitalised when they were completed, the amount that was capitalised was less than the amount that was actually incurred on the project.
The effect of this error is as follows:
Infrastructure assets: accumulated depreciation increased by R873 130.97

Some community assets should have been impaired in the prior year but they were not; this has been corrected in the current year and the effect is as follows:
Community assets decreased by R116 400.89
Accumulated surplus decreased by R116 400.89

Some computers were depreciated at an incorrect useful lives in the previous years and this has been corrected in the current year.
The effect of this error is as follows:
Other assets: accumulated depreciation decreased by R1158
Accumulated surplus increased by R116 400.58

The bank was overstated by an amount of R1 345 740 and VAT was understated with the same amount.

The deposits received were understated due to the claims for Pound fees that were over charge, and refuse removal dumpsite that were also overcharged and claimed from deposits received.
the efect of this error is as follows:
Deposits received increases by R3980
Pound fees decreases by R940
Refuse removal dumpsite decreased by R3 040

The impact of the foregoing errors is as follows:

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Accumulated surplus | - | 4,750,945 |
| Property plan and equipment | - | (4,750,945) |
| Cash and cash equivalents (Bank) | - | (1,345,740) |
| VAT | - | 1,345,740 |
| Payables from exchange transactions (Deposits received) | - | 3,980 |
| **Statement of Financial Performance** | | |
| Pound fees | - | (940) |
| Refuse removal dumpsite | - | (3,040) |
| General expenses (Casuals) | - | (1,197,982) |
| Contracted services (Casuals) | - | 1,197,982 |
| Depreciation | - | 266,022 |
| Impairment losss | - | 463,034 |

### 45. Prior period errors (continued)

**Statement of Financial Performance**

| | Previously Reported | Restated |
|---|---|---|
| Fines, penulties and forfeits | 841,705 | 840,765 |
| Service charges | 2,810,944 | 2,807,904 |
| General expenses (casuals) | 1,197,982 | - |
| Contracted services (casuals) | - | 1,197,982 |
| Depreciation | 46,667,957 | 47,653,880 |
| Impairment loss | - | 463,034 |
| | **51,518,588** | **52,963,565** |

**Statement of Financial Position**

| | Previously Reported | Restated |
|---|---|---|
| Community assets | 183,558,824 | 177,991,651 |
| Accumulated surplus | 589,810,590 | 585,045,386 |
| Cash and cash equivalents | 182,834,446 | 181,488,706 |
| VAT | 3,491,482 | 4,837,222 |
| Payables from exchange transactions | 20,413,495 | 20,417,477 |
| | **980,108,837** | **969,780,442** |

### 46. Budget differences

**Material differences between budget and actual amounts**

Budget vs Actual Variance Explanations for 2020/2021

The budget is approved on an accrual basis nature of classification. The approved budget covers the period of 01 July 2019 to 30 June 2020
Material variances on final budget compared to actuals.

Variance Explanations

### 46. Budget differences (continued)

**Revenue**

**Property Rates** – The municipality realised more revenue on Property Rates due to change of market values on government properties in the valuation roll. After preparing budget and Property rates for mall increased due to the decrease in their rebates. On the Indigents there were less consumers getting discretionary rebate hence they were approved as indigent and there were less indigent application renewals from ward 11.

**Service Charge** – The number of private/individual dumping decreased in the financial year due to the Covid-19 lockdown. Rental of facilities and equipment - There were new rental agreements signed after adjustment budget. Contract escalations were not considered during budgeting process.

**Transfer recognised operation** – The municipality received all grant allocations for 2019-2020 financial year, the variance is a result of unspent grants which are not recognised as revenue.

**Transfer recognised capital** – The municipality received all grant allocations for 2019-2020 financial year, the variance is a result of unspent grants which are not recognised as revenue

**Other Own revenue** – the following is a result of under collection:

- Library Copy fees - Library was closed due to covid-19
- PDA Applications for Spluma and Building plans and Servitudes Depends on applications received from consumers
- Clearance Certificates Income - There we less issued clearance certificates meaning there were no property transfers initiated by consumers
- Tender Income - There were less tender documents sold due to covid-19

**Operating Expenditure**

**Employee costs** – The municipality realised savings on employee related cost due to delays in replacement of resigned staff as well as the deceased.

**Remuneration of councillors** – The savings realised on remuneration of councillors is due to the fact that the municipality received the gazette in April after the adjustment budget was done, and the municipality had budgeted for 5% increment but then the gazette approved 4%.

**Debt Impairment** – The variance between budget and actual processed during the financial year was caused by the increase in municipal debt due to the corona virus pandemic impact.

**Other materials**

**Contracted services** – The following are the reasons for the savings on contracted services:

- Social Facilitation Strategy - Awaiting approval from Department of Human Settlements to utilize funding from MHOA
- Child Protection week is usually coordinated for 4th quarter. We could not celebrate it due to the national lockdown
- AIDS Day - The event was coordinated at ward, but we could not provide catering, due to late request submission to SCM
- The municipality were in collaboration with the District and the Department of Sports and Recreation. DSR provided catering.
- The service provider to perform verification and assessment for impairment on assets was appointed later than anticipated due to the covid-19 national lockdown and this affected the processes of appointment of a service provider.

**Repairs and Maintenance** – The municipality re-scheduled the activities that were supposed to be done on repairs and maintenance as a result of COVID 19 National lockdown, the municipality only prioritised the emergency services and the scope of work change.

The municipality appointed 6 projects during 2019-2020 financial year of which 4 were delayed due non-compliance of the Tender Documents and were only appointed in the 4th quarter of 2019-2020 and the expenditure was incurred in the 1rst quarter of 2020-2021 financial year.

**Other expenditure** – The service provider for the procurement of PPC was appointed, but the contract was terminated due to

## Notes to the Annual Financial Statements



### 46. Budget differences (continued)

poor performance (non-delivery) by the service provider. The processes to procure through RT64 is in progress.

**Travel and Subsistence** - Due to COVID 19 National lockdown, all relate segments could not be spent in the fourth quarter.

**Capital Expenditure** – Municipal Infrastructure grant and Sport Facility grant has a huge impact on lower expenditure due to the following reasons:

Washbank Access Road - ward 20 and Matsheni access Road - Ward 6, The Tender Briefing was on the 03/02/2020 and closed on the 14/02/2020 Due to Covid-19 the appointments were delayed. The Contractors were only appointed 07/08/2020. There were ten projects that were funded by Municipal Infrastructure Grant (Lukhasini, Ncambele, Gugwini, Lukhalweni, Nigel, Machunwini to Thusi, Masamini, Thornbush, KwaFish, Bovini Access Roads) each project had R400 000 for design and it was not spent due to COVID 19 pandemic which cause a huge delays. These projects were only appointed in June 2020.
Ward 3 Community Hall and Ward 4 Community Hall were advertised on the 27/06/2019, and intention to award was published 07/10/2019, however the project incurred delays associated with appeals which delayed the appointment of the Contractor by 6 months, appointment was achieved 11/02/2020 and due to lockdown no further expenditure was achieved.
HG Regional Multipurpose Sport centre - Delays were experienced due to community disputing the original site. A new site has been established at Ebuta Farm.
The municipality will request rollover for these projects.

**Internal Generated fund**

The municipality had planned to procure fire arms and could not be procured because we were still waiting for approval from the fire arm registry for those fire arms that were already procured.

The municipality budgeted R5 million to procure the fire engine truck, the reason for the non-spending of this fund was because of delays caused by the National lock down, and now the service provider is at 70% completion of the truck.
Waste Skip Truck, Water Tanker and Waste Tipper Truck - Procurement processes through RT57 were done in time but delays were experienced due to National lock down. Waiting for delivery, payment will be done in the next financial year.

**Memorial Hall** - The project is under construction and was delayed by Covid-19 National lockdown.
Computer Equipment – There was a delay on the service provider that was appointed to deliver these assets due to national lockdown pandemic.

### 47. Compliance with the Municipal Finance Management Act and other Laws and Regulations

The municipality complied with all the requirements of the MFMA as required. There were no instances of material non-compliance identified during the period under reporting, except for the items disclosed in note 39 (irregular expenditure) and note 44 (deviations).

### 48. Significant losses incurred during the financial year

Municipality did not incur any significant losses during the financial year; except those disclosed on the Note 28 for impairment and write-off receivables.